

## Message Text

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PAGE 01 TOKYO 08128 020851Z  
ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 ISO-00 AID-05 CIAE-00 COME-00  
EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02  
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 PA-01  
PRS-01 L-03 NSC-05 SS-15 STR-04 CEA-01 H-01 /094 W  
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R 020745Z JUN 77  
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TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
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AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

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BRUSSELS FOR USEEC

PARIS ALSO FOR USOECD

E.O. 11652: N/A  
TAGS: EFIN, JA  
SUBJECT: RELAXATION OF RESTRICTIONS ON BANKS' INTERNATIONAL  
OPERATIONS

1. SUMMARY: THE MINISTRY OF FINANCE (MOF) AND BANK OF JAPAN  
(BOJ) ON MAY 27 NOTIFIED AUTHORIZED FOREIGN EXCHANGE BANKS OF  
MEASURES RELAXING REGULATIONS CONCERNING BANKS' (I) CONVERSION OF  
FOREIGN CURRENCY BORROWINGS INTO YEN; (II) INTER-OFFICE FREE YEN  
LIABILITIES; AND (III) LENDING ABROAD IN FOREIGN CURRENCY. THIS  
ACTION IS COMPANION MEASURE TO IMPOSITION OF RESERVE REQUIREMENTS  
ON BANKS' FOREIGN CURRENCY LIABILITIES. LIBERALIZATION IS BE-  
LIEVED TO BE OF LIMITED IMPORTANCE QUANTITATIVELY. END SUMMARY.  
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PAGE 02 TOKYO 08128 020851Z

2. USUALLY WELL-INFORMED JAPAN ECONOMIC JOURNAL (NOHON KEIZAI)  
REPORTS THAT MOF AND BOJ NOTIFIED FOREX BANKS MAY 27 OF LIMITED  
RELAXATION OF REGULATIONS CONCERNING BANKS' (I) CONVERSION INTO  
YEN OF FOREIGN CURRENCY BORROWED ABROAD; (II) INTER-OFFICE FREE  
YEN LIABILITIES; AND (III) LENDING ABROAD IN FOREIGN CURRENCY.  
NO OFFICIAL ANNOUNCEMENT OF THIS ACTION HAS BEEN RELEASED, BUT

MOF OFFICIALS CONFIRM ACCURACY OF PRESS REPORTS ON WHICH THIS MESSAGE BASED.

3. EASING OF RESTRICTIONS ON YEN CONVERSION: DESPITE FACT AUTHORIZED FOREIGN EXCHANGE BANKS ARE IN PRINCIPLE REQUIRED TO MAINTAIN SPOT FOREX ASSETS EQUAL TO OR EXCEEDING THEIR SPOT FOREX LIABILITIES, FOREIGN BANKS' BRANCHES IN JAPAN HAVE BEEN PERMITTED TO CONVERT FOREIGN CURRENCY BORROWINGS INTO YEN UP TO A CERTAIN, NOT PUBLICLY ANNOUNCED, LIMIT. (THESE ARE OFTEN CALLED SWAP LINES.) PRESENT RELAXATION, EFFECTIVE JUNE 8, INCREASES THESE LIMITS, SET ON BANK-BY-BANK BASIS, BY UNSPECIFIED AMOUNTS. PRESS PORTRAYS RELAXATION AS MODEST, WHICH JIBES WITH EARLIER INDICATIONS MOF OFFICIALS HAVE PROVIDED EMBOFFS.

4. PARTIAL EXEMPTION OF INTER-OFFICE FREE-YEN LIABILITIES FROM TREATMENT AS FOREIGN CURRENCY LIABILITIES: AUTHORIZED FOREIGN EXCHANGE BANKS ARE PRESENTLY REQUIRED TO INCLUDE FREE YEN LIABILITIES TO HEAD OFFICES AND BRANCHES ABROAD WITH THEIR FOREIGN CURRENCY LIABILITIES FOR PURPOSES OF MEETING THE REQUIRED RELATIONSHIP BETWEEN SPOT FOREX ASSETS AND LIABILITIES CITED IN THE PRECEDING PARAGRAPH. EFFECTIVE JUNE 1, AN UNSPECIFIED PORTION OF SUCH FREE YEN LIABILITIES WILL NO LONGER BE TREATED AS A FOREIGN CURRENCY LIABILITY. IF EXPERIENCE WITH THE RELAXATION IS SATISFACTORY, THE JAPANESE AUTHORITIES REPORTEDLY INTENDED IN THE FUTURE TO EXCLUDE ALL INTER-OFFICE FREE YEN LIABILITIES FROM THE REQUIREMENT.

5. RELAXATION OF RESTRICTIONS ON LENDING ABROAD BY JAPANESE BANKS DENOMINATED IN FOREIGN CURRENCY: NOTIFICATION TO AUTHO-

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PAGE 03 TOKYO 08128 020851Z

RIZED FOREX BANKS REPORTEDLY INCLUDES FOLLOWING STEPS: (I) RESTRICTION ON BANKS' SHORT-TERM LENDING ABROAD IN FOREIGN CURRENCY WOULD BE ABOLISHED, EFFECTIVE MAY 30. BEFORE EASING, OUTSTANDING BALANCE OF BANKS' SHORT-TERM LENDING ABROAD DENOMINATED IN FOREIGN CURRENCY WAS SUBJECT TO OFFICIAL RESTRICTION ON BANK-BY-BANK BASIS. (II) FUNDS BANKS RAISE ABROAD BY MEDIUM OR LONG-TERM BORROWING COULD IN PRINCIPLE BE LOANED ABROAD AT MEDIUM OR LONG TERM, EFFECTIVE IN JULY. IT SHOULD BE RECALLED THAT IN NOVEMBER 1976 THE MOV PARTIALLY RELAXED RESTRICTION ON LONG-TERM FOREIGN CURRENCY LENDING ABROAD, PERMITTING JAPANESE BANKS TO EXTEND LONG-TERM LOANS ABROAD IF THE NEW LOANS WERE FINANCED THROUGH REPAYMENTS OF PREVIOUSLY MADE LOANS. PRESS INTERPRETS MOF AS INTENDING BY PRESENT MOVE TO ENCOURAGE JAPANESE BANKS FURTHER TO SHIFT AWAY FROM CURRENT CONCENTRATION ON SHORT-TERM BORROWING ABROAD.

6. THESE ACTIONS BY MOF AND BOJ ARE ALSO REPORTED AS DESIGNED TO AVOID DUPLICATIVE RESTRAINTS ON BANKS' FOREIGN CURRENCY BORROWING, GIVEN GOJ'S DECISION TO INSTITUTE RESERVE REQUIREMENTS ON BANKS'

FOREIGN CURRENCY LIABILITIES, EFFECTIVE JUNE 1 (TOKYO 7649). AS EARLIER REPORTED, MOF INTENDS TO RELAX YEN CONVERSION RESTRICTIONS FURTHER AND TO REGULATE BANKS' FOREIGN LIABILITIES INDIRECTLY THROUGH RESERVE DEPOSIT REQUIREMENT SYSTEM. RELAXATION OF RESTRICTIONS IS THUS COMPANION MEASURE TO IMPOSITION OF RESERVE REQUIREMENT.

7. EXCEPT FOR REQUIREMENT CONCERNING FREE YEN LIABILITIES, RESTRICTIONS BEING RELAXED HAVE BEEN IMPOSED ON A BANK-BY-BANK BASIS; AND AS RESULT OF PRESENT ACTION, INTER-OFFICE FREE YEN REQUIREMENT WILL BE ADMINISTERED ON BANK-BY-BANK BASIS. JAPANESE OFFICIALS HAVE THEREFORE BEEN VAGUE ABOUT QUANTIFYING IMPACT OF RELAXATION, SINCE EVEN A GLOBAL FIGURE WOULD GIVE INDIVIDUAL BANKS SOME IDEA OF HOW THEY WERE FARING VIS-A-VIS COMPETITORS. GIVEN LOW LEVEL OF INITIAL RESERVE REQUIREMENT IMPOSED AND INDICATIONS FROM MOF OFFICIALS CITED ABOVE, IT SEEMS REASONABLE TO CONCLUDE THAT RELAXATION OF YEN CONVERSION RESTRICTIONS WILL BE LIMITED OFFICIAL USE

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PAGE 04 TOKYO 08128 020851Z

IONS IS RELATIVELY MODEST. THERE IS NO INDICATION OF MAGNITUDES INVOLVED IN RELAXATION OF TREATMENT OF INTER-OFFICE FREE YEN LIABILITIES. IMPORTANCE OF RELAXATION OF CONTROLS ON FOREIGN CURRENCY LENDING WOULD APPEAR TO DEPEND ON COMPETITIVE POSITION OF JAPANESE BANKS. EARLIER, BEFORE RECENT INTEREST RATE DECLINES IN JAPAN, ABILITY TO OFFER RELATIVELY LOW-COST FOREIGN CURRENCY LOANS ALONG WITH YEN LOANS WAS CONSIDERED IMPORTANT FACTOR IN MARKETING YEN-DENOMINATED LOANS ABROAD, BUT THIS FACTOR IS AT LEAST LESS IMPORTANT NOW. EMBASSY WILL TAKE ADVANTAGE OF OPPORTUNITIES WHICH ARISE TO EXPLORE FURTHER IMPLICATIONS OF THIS LATEST ANNOUNCEMENT, BUT WE ARE INCLINED ON BASIS OF INFORMATION NOW AVAILABLE TO CONSIDER PRESENT PACKAGE AS FAIRLY MODEST. SHOESMITH

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
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